

126th ANNUAL REPORT

BOSTON AND MAINE RAILROAD 1958

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CONTENTS

| | |
|--|----|
| Officers and Directors | 2 |
| To Our Stockholders | 3 |
| Review of 1958 | 7 |
| Rents | 7 |
| Other Income | 7 |
| Tax Accruals | 8 |
| Operating Results | 8 |
| Passenger Business | 9 |
| Freight Business | 10 |
| Piggyback | 11 |
| Industrial Development | 13 |
| Employee Relations | 14 |
| Equipment Changes | 15 |
| Property Improvements | 15 |
| Mystic Terminal Company | 17 |
| Boston & Maine Transportation Co. | 18 |
| Miscellaneous Developments | 18 |
| Plan of Modification | 19 |
| Capital Changes | 19 |
| Debt | 21 |
| Changes in Debt | 22 |
| Financing | 22 |
| Employees | 23 |
| Conclusion | 23 |
| Financial Statements | 24 |

126th ANNUAL REPORT 1958

for year ending December 31

BOSTON AND MAINE RAILROAD

BOARD OF DIRECTORS

OLIVER D. APPLETON, Mount Kisco, N. Y.
ANDREW J. BECK, Presque Isle, Me.
MAYNARD W. BULLIS, Boston, Mass. (resigned Oct. 22, 1958)
BURTON M. CROSS, Augusta, Me.
JOHN S. DAWSON, Fairfield, Conn.
A. E. HAROLD FAIR, Chestnut Hill, Mass. (elected Oct. 22, 1958)
ALONZO R. GILE, Franklin, N. H.
JOHN C. GLIDDEN, Englewood, N. J.
W. EARLE GOSS, Franklin, N. H.
NATHAN GREVIOR, Tilton, N. H.
RODNEY A. GRIFFIN II, Franklin, N. H.
WILFRED N. HADLEY, Springfield, Vt.
EDWARD KROCK, North Brookfield, Mass. (elected Jan. 28, 1959)
PATRICK B. MCGINNIS, Staten Island, N. Y.
FRANCIS P. MURPHY, Nashua, N. H. (died Dec. 18, 1958)
WILLIAM L. PHINNEY, Goffstown, N. H.
FRANCIS J. REARDON, Belmont, Mass.
MAURICE A. TRAVERSE, Brookline, Mass.
JOHN A. VOLPE, Winchester, Mass.
JAMES A. WALSH, Greenwich, Conn.

OFFICERS

OLIVER D. APPLETON, Chairman of the Board
PATRICK B. MCGINNIS, President
GEORGE F. GLACY, Vice President-Accounting and Finance
PATRICK J. MULLANEY, Vice President-Traffic
DANIEL A. BENSON, Vice President-Operations
STANLEY G. PHILLIPS, Vice President-Engineering
RALPH W. PICKARD, Vice President-Personnel
E. FRANK REED, Vice President-Industrial Development (appointed Feb. 2, 1959)
FRANK W. ROURKE, Vice President-Staff (retired April 1, 1958)
NEAL J. HOLLAND, Acting General Counsel
MAYNARD W. BULLIS, Clerk of the Corporation
THOROLD S. CURTIS, Treasurer
A. B. VIRKLER LEGATE, Executive Assistant to the President

TRANSFER AGENTS

Old Colony Trust Company, 45 Milk Street, Boston
The Hanover Bank, 70 Broadway, New York City

TO OUR STOCKHOLDERS:

The severe decline in the volume of freight business throughout the country, which began in the late months of 1957, continued with even greater severity in the first six months of 1958. The national recession turned into a severe depression for the railroads in the east, particularly for the seven railroads having very heavy passenger and commuting business. The Boston and Maine is one of these seven.

When a recession or a depression hits the railroad industry, some direct control can be administered when the business of that railroad is primarily freight, because there is a great deal of managerial discretion in relating freight operating expenses to freight revenue. In the passenger business, however, there is virtually no opportunity for managerial discretion and all proposals to reduce expenses, when management is faced with a recession, must be approved by the various regulatory commissions, which, of course, takes time.

In addition, some unusual conditions accompanied the recent depression. These were the spiral wage increases taking place in 1957 and 1958, including not only the seven cents-per-hour increase in 1957 and 1958 arising from the mandatory provisions of the three-year contract of 1956, but also the substantial cost-of-living wage increases. These conditions are unusual in that in most recessions and depressions, the cost of living goes down, not up, and wages are rarely increased.

In effect, therefore, the inflation, the wage spiral and the inability to control immediately passenger-operating expenses caused tremendous deficits for the seven passenger-carrying commuting railroads of the East in the first seven months of 1958.

The Boston and Maine was no exception.

For the first seven months of 1958 our gross revenues were \$44,530,199 versus \$50,261,412 for the similar period in 1957. This was a dollar decline of \$5,731,213, or 11.4 per cent.

Our operating expenses for the first seven months of 1958 were \$38,145,026 versus \$40,784,283 for the similar period in 1957. This was a reduction of \$2,639,257, or 6.5 per cent.

As a result, our net income for the first seven months of 1958 was a deficit of \$3,744,681 versus a net income profit in the same period in 1957 of \$397,015.

Late in 1957, management recognized that the passenger-commuting expenses must be reduced in order to meet the conditions which had developed. A re-scheduling of passenger service was prepared and petitions were filed in December, 1957. Favorable decisions were received in the middle of 1958.

The result of this re-scheduling becomes apparent when we relate the gross revenues of the last five months of 1958 to the operating expenses and net income. For the last five months of 1958, our gross revenues were \$32,905,165 versus \$35,692,515 for the similar period of 1957. This was a gross dollar decline of \$2,787,350, or 7.8 per cent. Expenses, however, were controlled. Our operating expenses for the last five months of 1958 were \$25,379,257 versus \$28,100,584 for the similar period of 1957. This was



a dollar decline of \$2,721,327, or 9.6 per cent. In other words, in the last five months of 1958 the decrease in expenses almost equaled the decrease in revenues, whereas for the first seven months of 1958 the gross revenue decrease exceeded the operating expense decrease by \$3,091,956.

It is also interesting to note that the net income for the last five months of 1958 was a profit of \$502,474 versus a profit of \$367,147 for the similar period of 1957. This demonstrates rather dramatically the managerial ability to relate expenses to revenues, if permitted. This accomplishment, of course, was late, but, nevertheless, effective as soon as the re-scheduling of passenger service was allowed.

In the light of the above explanation, we believe that the net deficit of \$3,242,000 for the entire year 1958 is a bit more understandable.

We are not satisfied with the passenger deficit, although we have reduced that deficit from \$15,200,000 in 1954 to \$9,628,110 in 1958.

In December of 1958, we filed a petition in Massachusetts for further revision of our passenger service, primarily involving discontinuance of passenger service on three of our branch lines.

In 1954, the Boston and Maine operated 6,055,000 passenger train miles. In 1958, we operated 4,391,000. Based on December, 1958 operations, we are operating at the annual rate of 3,952,000 train miles.

In 1958, at the federal level, new legislation was passed. The discriminatory three per cent excise tax on freight revenues was repealed. In addition, as part of the Transportation Act of 1958, the railroads were given the right to try to regain the business they have been losing to the trucks by permitting them to base their rates on costs, as the trucks do, rather than basing rates on historical and traditional factors.

New rates have already been published and although in some cases temporarily suspended, we believe the railroads will be given the chance to demonstrate that they are the low-cost, long-haul carrier and that they can regain the tremendous tonnage of manufactured and miscellaneous products lost to the trucks, primarily because of the rate structure.

Our bulk traffic competitors who carry oil, coal, sulphur, molasses, sand, gravel and similar bulk commodities have always made bulk rates, agreed rates, quantity rates and contract rates. In other words, our competitors have taken a great share of our bulk business because they could make bulk rates, while the railroads were hesitant about doing the same. Some thought legislation was necessary; others thought it would weaken the rate structure. The Boston and Maine believes we should make bulk rates and quantity rates as our competitors do, but likewise we should insist upon volume as our competitors do. It is gratifying to note that several applications have been made by the railroads to inaugurate rates of this character.

The Boston and Maine believes that the railroad industry can turn itself around if it is allowed to use some managerial discre-

*North Station Snow Scene,
February 16, 1958*

tion in eliminating deficit operations, in recapturing the manu-
factured and miscellaneous business by making rates based upon
our costs and in recapturing the bulk business by making bulk
rates.

Our non-railroad competitors in New England have benefited for years from the inequalities and inequities which have existed. We believe that 1959 will mark a turning point in this situation.

Our financial plans for 1959 include an application for a loan of \$6,000,000 to restore our working capital, which was depleted by \$18,000,000 for capital expenditures from January 1, 1957 through September 30, 1958. This application is now pending before the Interstate Commerce Commission.

We also hope to arrive at a satisfactory arrangement with the bond-holders with respect to the Series RR Bonds, which mature July 1, 1960. We hope to accomplish this by July, 1959, rather than wait for the actual maturity date of July 1, 1960. You will be kept advised as to our progress in this direction.

When the working capital problem has been solved and the maturity extension has been arranged, the exchange of the preferred stock into income bonds will be considered, provided the earnings of the Railroad justify the payment which must accompany the exchange.

Your president has attended three meetings in connection with the possible merger of the six railroads in New England. Your management feels that the service to our shippers could be improved tremendously by having one authority rather than six in New England. Service being a very important component of the freight business, such a merger seems obviously desirable. The individual problems, however, of the Boston and Maine must be solved first.

Your management is most grateful to its staff, its employees, its stockholders, its freight customers and its passengers for their cooperation. Continued cooperation will greatly assist in the restoration of our credit, which we sincerely believe can be accomplished during 1959 and 1960.

Sincerely,

Patrick B. McGinnis

March 19, 1959
Boston, Mass.

REVIEW OF 1958

Our operating revenues amounted to \$77,435,364, or 9.9 per cent less than the \$85,953,927 realized in 1957. Operating expenses were \$63,524,283 in 1958, or 7.8 per cent less than the 1957 expenses of \$68,884,867.

Net railway operating income decreased to \$1,914,238 from \$5,519,203 reported a year earlier. After miscellaneous adjustments, \$2,220,453 remained available for fixed charges, compared with \$5,857,029 in 1957. After fixed and contingent charges, the net deficit was \$3,242,207, compared with a profit of \$764,162 in 1957.

RENTS

Rents payable in 1958 totaled \$5,975,577, compared with \$5,883,182 during 1957. Hire of freight cars amounted to \$5,558,312 as against \$5,529,627 during 1957. Joint facility rents were \$501,549 during 1958, compared with \$440,651 in 1957, the increase principally due to increased labor costs resulting from industry-wide wage increases effected during 1958.

The decision of the Interstate Commerce Commission sustaining as reasonable the \$2.40 Per Diem rate established August 1, 1953, for the rental of freight cars of other railroads was appealed by the Boston and Maine and several other railroads to the courts in 1957. In October, 1958, the Supreme Court of the United States upheld a District Court decision which found that the reasonableness of the Per Diem rates had not been established and that the Commission had erred in failing to set forth in detailed findings its reasons for rejecting a time-mileage plan proposed by the Boston and Maine as being more equitable than the plan approved. The case was remanded to the Interstate Commerce Commission for further investigation and findings in accordance with the Court's decision, and the matter is now again before the Interstate Commerce Commission.

OTHER INCOME

Other income during 1958 amounted to \$777,877, compared with \$905,384 a year earlier.

The decrease from the previous year was due largely to an adjustment of interest in 1958 of \$57,602 covering excess of previously recorded estimate over the amount of interest actually received from the Director of Internal Revenue applying to tax refunds in previous years. In addition, interest on United States securities decreased \$25,122 because of lesser holdings and interest on abated real estate taxes decreased \$34,878 from 1957.

TAX ACCRUALS

Railway tax accruals aggregated \$6,021,266 in 1958, compared with \$5,666,675 in 1957.

In 1958, adjustment of prior years' Federal income taxes resulted in a credit of \$36,431, compared with a credit of \$391,721 in 1957, which was also a result of adjustment of prior years' Federal income taxes.

Payroll taxes for employee retirement and unemployment and sickness benefits amounted to \$2,748,660 in 1958, compared with \$3,075,216 in 1957, a net decrease in 1958 of \$326,556 despite an increase in the employee unemployment and sickness benefit tax from two to two and one-half per cent, effective January 1, 1958. The unemployment and sickness benefit tax increased in 1958 by \$36,010 over 1957, but this was more than offset by a decrease of \$362,566 from the 1957 retirement tax. A further increase to three per cent in the employee unemployment and sickness benefit tax became effective January 1, 1959.

The provision made for taxes is shown in the following table:

| | 1958 | 1957 |
|--------------------------------|-------------|-------------|
| State and Municipal Taxes..... | \$3,290,937 | \$2,972,229 |
| Federal Payroll Taxes..... | 2,748,660 | 3,075,216 |
| Federal Income Taxes.....Cr. | 36,431 | Cr. 391,721 |
| Other Taxes..... | 18,100 | 10,951 |

The New Hampshire state tax was increased from \$496,000 to \$501,000 as the result of an increase in the tax rate and in spite of a slight decrease in the valuation. Reconsideration before the State Tax Commission has been requested for the purpose of seeking a substantial reduction in the valuation of our property in New Hampshire and, consequently, a substantial reduction in the resulting tax liability. This matter is still pending.

The Boston and Maine, Maine Central and Bangor & Aroostook Railroads have joined together in an effort to secure legislation which would place the Maine state tax on a more fair and equitable basis. This legislation, if successful, would result in substantial annual savings.

OPERATING RESULTS

Freight traffic volume measured by gross ton-miles during 1958 was 8.3 per cent below 1957. Despite this loss, however, train operating efficiency in 1958, as expressed by gross ton-miles per train hour, rose to a new all-time high record of 40,675. This resulted from a second-highest average train-load ever handled, coupled with a better-than-average train speed.

PASSENGER BUSINESS

Commuters handled declined from 7,374,368 in 1957 to 5,787,726 in 1958, a reduction of 21.5 per cent. Commutation revenue was \$2,824,200, compared to \$3,112,994 in 1957, a decline of 9.3 per cent.

Other passengers handled declined from 4,667,729 in 1957 to 3,378,608 in 1958, a reduction of 27.6 per cent. Revenue from other passenger business was \$5,859,000 in 1958, compared to \$7,044,244 in 1957, a decrease of 16.8 per cent.

Total passenger revenue declined from \$10,157,238 in 1957 to \$8,683,199 in 1958, a decrease of 14.5 per cent. These figures indicate the continuing downward trend of passenger traffic by rail.

Based upon studies completed in the summer of 1957, the management determined to attack the passenger deficit problem by discontinuance of train service for which there was no genuine public need. In the fall of 1957, applications covering over 150 trains were filed with the five state commissions having jurisdiction. By May, 1958, approvals in whole or in part had been received from the various commissions, with the result that some 140 trains were approved for discontinuance.

Late in 1958, the Railroad secured approval for discontinuance of all passenger service between Greenfield and Williamstown, Massachusetts.

The effect of the discontinuance cases on the passenger service deficit has been a reduction in the deficit from \$12,590,280 in 1957 to \$9,628,110 in 1958. This deficit for 1958 reflects the benefits of less than seven months of the major discontinuance cases and none of the benefits of the Greenfield-Williamstown case.

In December, 1958, the railroad filed a petition with the Massachusetts Department of Public Utilities for the discontinuance of all passenger service on three branch lines and 25 trains on its main lines. Hearings on this petition are expected to be completed shortly. The petition, if granted, would discontinue an additional annual 400,000 passenger train miles and further reduce the passenger service deficit by \$1 million annually.

The passenger deficit has been reduced since 1954, as follows:

Passenger-Service Deficit

| <i>Year</i> | <i>Amount</i> | <i>% of 1954 Deficit</i> |
|-------------|---------------|--------------------------|
| 1954 | \$15,159,263 | 100.00 |
| 1955 | 12,250,363 | 80.8 |
| 1956 | 13,678,564 | 90.2 |
| 1957 | 12,590,280 | 83.1 |
| 1958 | 9,628,110 | 63.5 |

An important aspect of the passenger service deficit problem is the head-end revenue, which is assigned to the passenger service. The management instituted a series of studies of head-end revenue, with particular emphasis on mail, express and the carriage of newspapers. Each of these operations proved to be a loss producer for the Railroad. Various steps have been taken to reduce these losses.

The Railroad has secured additional truck rights for the carriage of mail and express, thus enabling passenger trains to be converted to Budd operations, particularly in New Hampshire. Increased rates have been negotiated for the carriage of mail and newspapers. Arrangements have been made with the Post Office Department for revision of schedules to permit the release of passenger trains whose primary function was not the carriage of passengers. At the end of 1958, the whole question of the Railroad's participation in the Railway Express Agency was being studied by management.

The progress made thus far and the expectation of results on matters pending or under consideration at the end of 1958 indicate that the Railroad is well on the way to a solution of its passenger deficit problem. The accomplishments of the Railroad in reducing its passenger deficit are believed without parallel in the country.

FREIGHT BUSINESS

Freight revenues in 1958 amounted to \$59,617,291, a decline of 10.4 per cent from the 1957 revenues of \$66,516,504. The decline in freight volume measured in revenue ton-miles was 10.5 per cent, while revenue per ton mile increased from 2.326 cents in 1957 to 2.331 cents in 1958. In this connection, a slight increase in the general rate level was offset by changes in the character of the traffic and by reductions made in rates where required to protect the competitive position of the Railroad.

As is customary in times of reduced industrial activity, a larger proportion of the Railroad's total freight consisted of traffic yielding lower-than-average revenue per ton mile. Another factor affecting both volume and revenue adversely during such periods is that as the total amount of freight available for transportation declines, a larger proportion is handled in shipper-owned equipment, and competition for the remaining business becomes greater, not only affecting the volume handled but also tending to cause competitive rate-cutting.

The rail carriers throughout the country attempted to offset de-

clining revenue by making varying increases in the level of rates on many commodities where it was felt that this could be done without substantial losses of traffic to other means of transportation, and by increasing charges for miscellaneous services which were not paying their proper share of the transportation burden. Most of these increases went into effect on February 15, 1958, subject to investigation and approval by the Interstate Commerce Commission in Ex Parte 212. The order of the commission resulted in the modification of some of these increases, effective September 15, 1958.

Although the Boston and Maine realized some increased revenue from these changes, the effect on this company was not as great as it was on the railroads as a whole, as a large part of the increased revenue involved in the proceeding was on such bulk commodities as iron ore, which your Railroad handles in relatively small quantities.

The closing of the Ford Motor Company assembly plant in Somerville, Massachusetts, in March resulted in a complete loss to this Railroad of the handling of automobile parts which had been moving into this plant for assembly. This movement had, in the past, run as high as 14,000 cars a year, but had declined to 6,000 cars a year when operation of the plant was transferred to the new Edsel automobile. In spite of the entire loss of this traffic, the decline in Boston and Maine freight revenue for the year, as compared with 1957, was substantially less than that for the railroads in the East as a whole.

PIGGYBACK

A substantial extension of Boston and Maine piggyback service was made during 1958. In the face of generally declining traffic, the handling of Plan II piggyback, where the Railroad gives the complete service from the shipper's plant to the receiver's plant, showed a steady increase.

Plan I piggyback, under which the Railroad handles the trailers of common carrier truckmen, which had declined in volume almost to the vanishing point during the early part of the recession, began to increase again toward the end of the year, as improved pricing methods were worked out with our connections, and at the year's end had again attained a sizeable volume.

During the fall of 1958, a new type of piggyback, known as Plan III, was inaugurated. The physical handling of the trailers,

which must be owned or leased by the shipper, resembles Plan I, but the trailers move on rates published by the railroads, which rates are applicable only on shipments of mixed commodities. Plan III rates have been limited in their geographical application, and attempts to extend them have been suspended by the Interstate Commerce Commission as a result of attacks made on the entire Plan III arrangement by trucking interests. In addition to trial of the various suspension cases, the Interstate Commerce Commission has instituted a general investigation of the Plan III practices of the railroads as now in effect. Your management is taking an active part in this proceeding.

Your management believes that the development of piggyback traffic is of the utmost importance to the future of this company. The character of traffic in New England, and particularly the developments which have taken place in the economy of this area during the past 25 years with the constantly-increasing share of the total freight available for transportation being produced in small plants usually not served by rail siding and generally consisting of goods of high unit value moving in relatively small lots, has made it increasingly difficult to maintain traffic volume by other methods.

The preferred industrial locations have become those with ready access to and from super-highways, such as the Route 128 circumferential highway around Boston. The three varieties of piggyback service established by this company provide us with the opportunity to handle this expanding traffic. The territory beyond the Boston and Maine to and from which piggyback service is available is constantly being expanded, and we hope to work out arrangements for covering all sections of the United States, as well as many productive Canadian areas.

During 1958, ramps for loading and unloading of piggyback trailers were made available at Concord, New Hampshire, and North Adams, Massachusetts, and a ramp at Fitchburg, Massachusetts, is now under construction.

The Boston and Maine is a charter member of the Trailer Train Company, an organization owning and distributing specially-constructed flatcars for the handling of piggyback traffic. This ensures the Boston and Maine's receiving an adequate supply of flatcars, including 85-foot cars capable of carrying two of the longest trailers in use, supplementing the supply of cars used by individual railroads in this type of service.

We are studying the possibility of handling freight in truck-size containers. This method of freight handling and carriage has a promising future. Equipment investments are reduced, while more

flexibility in terminal handling is achieved to further reduce costs. Standardized container construction and a simple method of handling on and off flatcars is being studied by the Boston and Maine and its piggyback connections.

INDUSTRIAL DEVELOPMENT

In 1958, while the national economy was in a period of general recession, the requirements for new plant and warehouse facilities were considerably curtailed. During the latter part of the year, an improvement in this trend was noted.

Among the firms which located new plants or expanded existing plant facilities on the Railroad during 1958 were International Business Machines, Mead Corporation, Air Reduction Company, Bethlehem Steel Company, National Biscuit Company, C. A. Cross & Company and Hollbrook Grocery Company.

The estimated volume of new traffic for the Boston and Maine, resulting from industrial development activities during 1958, is more than 10,000 cars.

A total of 12,130 feet of new trackage was installed during the year to serve the requirements of industry. Approximately 1,878,000 square feet of land were sold for industrial use. Total sales of land involved 8,783,000 square feet.

The burden of property taxes and maintenance applicable to station properties appeared to management to offer an area where operating costs could be reduced. As in the case of agency discontinuances, sale of a station property requires the approval of state regulatory authorities. In station cases, the Railroad is required to reserve the necessary facilities for railroad use. Thus, the Railroad retains what may be necessary for its operations without any cost to it, while eliminating substantial annual expenses for taxes and maintenance. As a result, since we initiated our program of selling station properties, the Railroad has sold or contracted to sell 106 stations, resulting in an annual reduction in costs of \$235,000, considering the tax rates in effect at the time of the sale.

Mention was made in last year's report of the intention of the Holyoke Water Power Company to construct an electric power plant on our Connecticut River line at Mount Tom, Massachusetts, as well as the intention of the New Hampshire Public Service Company to construct a like plant on the main line of our New Hampshire Division in the town of Bow, New Hampshire. It is expected that both plants will go into operation in 1960, and the Railroad anticipates receiving a minimum of 600,000 tons of bituminous coal annually as a result. This will result in an increase

of approximately 50 per cent in the volume of bituminous coal which the Boston and Maine has been handling. These two plants, plus the new American Sugar Refining Company plant at Charlestown, Massachusetts, will result in estimated annual revenues of \$1,500,000 to the Railroad.

At the present time, all three plants are well under construction.

During the year 1958, agreement was reached (and since consummated) for the sale of about 21 acres of land in East Cambridge, Massachusetts for industrial development. This area will be used for new manufacturing and warehouse facilities which are expected to produce sizeable volume of new rail traffic. The sale will also result in substantial real estate tax advantages to the Railroad.

EMPLOYEE RELATIONS

The basic contracts with labor organizations representing the majority of our employees remained substantially unchanged during 1958 because of a moratorium in the governing national agreements on requests for changes in rates of pay or rules resulting in money payments by either the railroads or the unions, which will not expire until November 1, 1959.

Wage rates were increased seven cents per hour, as required by the contracts, on November 1, 1958. The provision for escalation at six-month intervals resulted in additional increases of four cents and one cent per hour on May 1 and November 1, 1958, respectively.

It is to be expected that the expiration of the moratorium in the existing three-year national agreements on November 1, 1959, will result in many requests, principally national in scope, for changes in rates of pay and working rules. The railroads are giving attention to the serious problems posed by rules that have been long outmoded because of changing technology, rules that increase operating expense. The change in the railroad industry from a monopoly position to a highly-competitive business requires a realistic and responsible approach to the issues by management, labor and government.

EQUIPMENT CHANGES

Our last steam locomotive was retired March 11, 1958. We also retired five switching locomotives and two multiple-purpose units during the year, leaving our locomotive ownership at the end of the year at 277.

Revenue freight cars owned and leased at the end of the year was 6,105.

Passenger car ownership at the end of the year was 459, which includes 108 Budd cars and five Talgo coaches. Additions during the year included the five Talgo coaches, five Budd cars and 15 insulated cars for milk service, all purchased new.

Also during 1958, the Railroad's shops converted ten flatcars to piggyback cars and another ten flatcars to gypsum cars. A program to equip all diesel locomotives and Budd cars with automatic fueling devices was undertaken, and at the end of the year all Budd cars and 50 locomotives had been so-equipped.

During the year, the mechanical department also equipped all main-line diesels and cabooses with radio for end-to-end communication. In addition, eight locomotives were equipped with a stand-by heating device, thereby eliminating watchman service.

PROPERTY IMPROVEMENTS

Our last two reports have emphasized the fact that the great majority of our revenue comes from a relatively small segment of our trackage. The officers of the Railroad have felt it imperative that such portion of our trackage receive preferential maintenance attention.

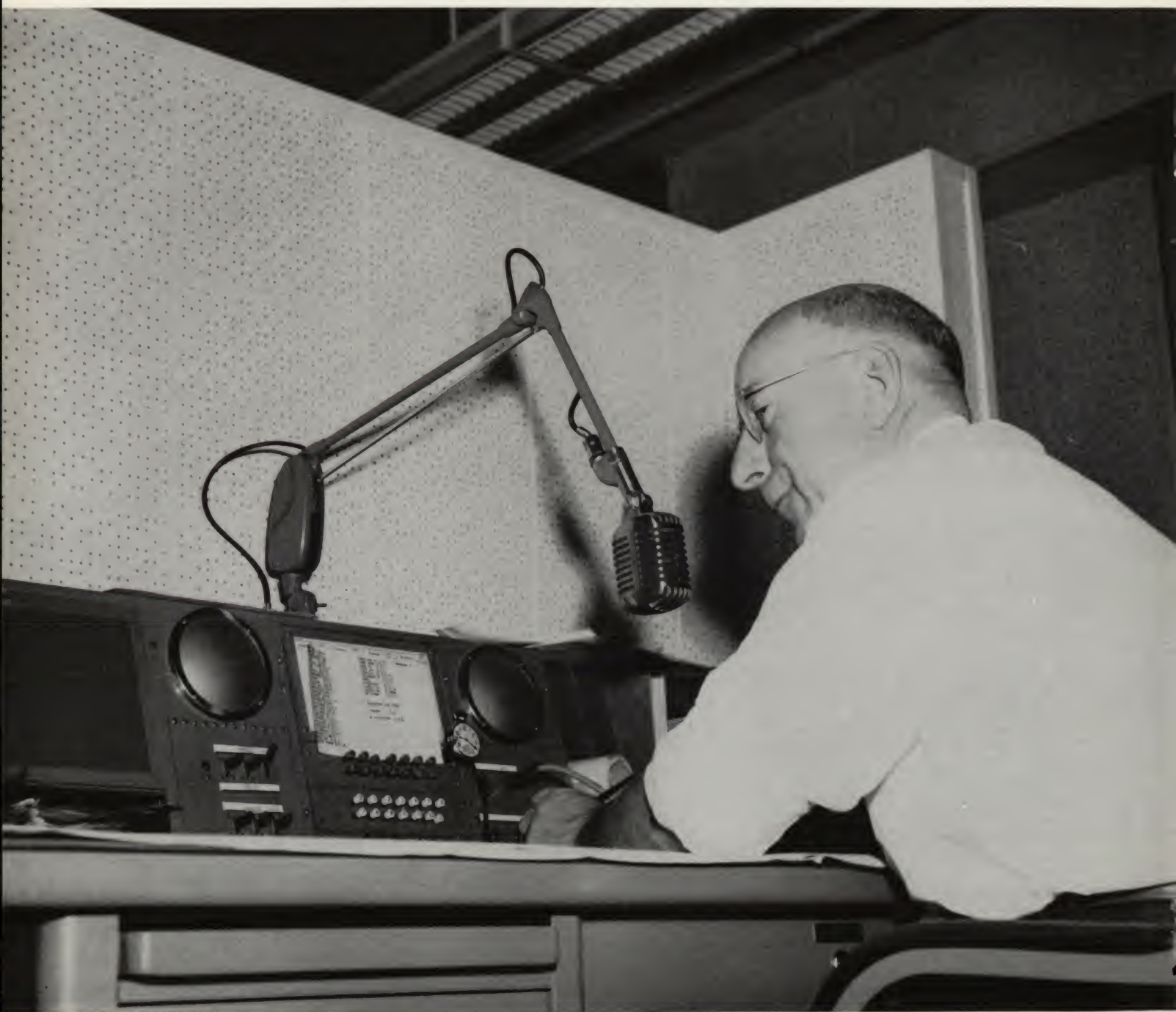
During the year, a total of 34 single track miles of main line was ballasted with stone. In addition, there were 129.5 single track miles of main line track re-surfaced. This work involved the application of 113,880 tons of crushed stone.

New rail laid in 1958 totaled 1,066.6 tons, while 1,901.3 tons of relay rail were laid, or a 1958 total of 2,967.9 tons, compared with 1,599.3 tons of new rail and 2,485.4 tons of relay rail, or a total of 4,084.7 tons laid in 1957.

A total of 56,297 cross ties were installed in 1958, compared with 63,925 laid the previous year.

Other important changes included the single-tracking of the Stony Brook branch between Ayer and North Chelmsford, Massachusetts, and the single-tracking of the Portland East Route main line between North Beverly and Newburyport, Massachusetts. Both involved centralized traffic control installations in conjunction with track changes.

Fifteen public highway crossings were eliminated during the year, while six were added. During 1958, an additional 131 private crossings were eliminated, making a total of 658 such crossings closed since our campaign began. It is hardly necessary to point out the importance of this program, since jury awards have risen at such an alarming rate during the past few years.



New Centralized Traffic Control Panel at Company Headquarters

During the year, the company completed several signaling installations. A new consolidated dispatchers' office was set up in Boston. An integral part of this project was the installation of 73 miles of centralized traffic control replacing semaphore automatic block signals between Concord and Westboro, New Hampshire. Signals and switches are controlled from a machine in Boston, 94 miles distant. The new dispatching office includes the centralized traffic control machine formerly located at Dover, New Hampshire.

Thirteen miles of double track between North Beverly and Newburyport, Massachusetts, have been replaced with single track centralized traffic control. This enabled the Railroad to eliminate the last four manually-protected crossings between Beverly, Massachusetts, and Portsmouth, New Hampshire, by the installation of automatic half-gates and flashing-light signals.

A greatly-improved signal and interlocking layout coincidental with the construction of a new tunnel at Salem, Massachusetts, was completed last August.

Eight automatic highway crossing protections were installed. The following signaling projects are under construction:

1. Six automatic highway crossing protection installations.
2. Double-direction centralized traffic controlled signaling is being installed throughout the length of the freight cut-off (Hill Crossing to Somerville Junction, Massachusetts).
3. The existing interlocking at Newton Junction, New Hampshire, is now in the process of being retired.
4. Interstate Commerce Commission permission has been granted to abandon signal systems on the Saugus and Danvers branches.
5. Installation of four additional hot box detectors.

MYSTIC TERMINAL COMPANY

The pier and elevator facilities operated by the Mystic Terminal Company in Charlestown, Massachusetts, are leased from the Commonwealth of Massachusetts. In the fall of 1958, Mystic and the Railroad entered into a contract for their exclusive operation by Boston Marine Terminal Corporation, which is managed by a very experienced and successful stevedoring group. The contract contemplates the complete management of the facilities and the offering of a complete line of stevedoring services to ship-owners by the new operators. It is believed that this type of operation will

end the chronic deficit experienced in the past.

Operations were to commence under the new contract shortly after the first of the year but were prevented from being carried out by an injunction granted by the Massachusetts Superior Court on the petition of Bay State Stevedoring Company. Trial has been held, and a decree favorable to the Railroad dissolving the injunction has been entered by the Superior Court just prior to this writing.

BOSTON & MAINE TRANSPORTATION COMPANY

This wholly-owned subsidiary has been conducting a bus and truck business in the Railroad's service area. For many years, it has experienced an increasingly-mounting deficit, due in large measure to the results of its bus operations.

During the year, hearings were concluded before an examiner of the Interstate Commerce Commission in connection with the proposed transfer of these bus operations to Trailways of New England, Inc. In November, the examiner issued a report to the Commission, recommending a grant of the application. The Commission's final decision has not yet been issued. During the pendency of this matter, our bus properties are being operated by Trailways under a lease pursuant to temporary authority granted by the Commission in December, 1957.

The truck operations of the subsidiary have been continued and expanded both for the handling of motor carrier traffic and for use in connection with rail operations. In the latter regard, the company handles a considerable volume of railroad head-end traffic and less-than-carload freight formerly moved in rail service, and is used extensively in conjunction with piggyback service. At the end of the year, the company owned 19 trucks, 44 tractors and 66 trailers, in addition to 50 trailers on lease to the Railroad for piggyback service.

MISCELLANEOUS DEVELOPMENTS

Another progressive step in our modernization program was realized on November 1, when a modern central data processing division was activated in the accounting department. By consolidation of all electronic and mechanical operations into one functional unit, maximum efficiency of personnel and equipment is being realized, and commendable savings are resulting. Functions of the new division center around the operation of two

Univac 120 computers. Procedures involving revenue, payroll, car accounting and statistics are currently processed electronically. Other accounting procedures are being programmed for future application.

During 1958, hearings in the so-called Port Equalization case before the Interstate Commerce Commission were concluded, and briefs have been filed. The proposed report of the examiner has not yet been issued, and it is expected that at least several more years of litigation will pass before the case is decided.

PLAN OF MODIFICATION

At the close of business May 21, 1959, the right to exchange old Boston and Maine Railroad stock of all classes for new five per cent preferred stock and new common stock will expire, and no further exchange can be made. Under the plan of modification of the capital stock structure, effective May 21, 1953, such exchange was made under the plan as approved by the Interstate Commerce Commission. On January 31, 1959, 99.8 per cent of the new five per cent preferred stock and 99.5 per cent of the new common stock had been issued in exchange for the old stock.

CAPITAL CHANGES

Your management has recognized, of course, that the maturity of the First Mortgage 4 Per Cent Series RR Bonds on July 1, 1960 is a major problem of the Railroad. For more than two years we have been in touch with our major institutional bondholders, informing them at all times of our plans to modernize and improve the Railroad, reduce the passenger deficit and, thereby, improve the earnings to the end that the bonds may be refunded or extended. More than 40 per cent of the total issue of these bonds is held by three insurance companies and the Commonwealth of Massachusetts and approximately 70 per cent of the total issue is held by about thirty-five financial institutions. We feel that under these circumstances, if the largest bondholders are in agreement on a refunding or extension plan, the chances are considerable that the other holders will join in such action.

Your management hopes that with the inroads it has made into the passenger deficit by rescheduling and the elimination of unprofitable trains and stations and with other measures taken to effect economies, it will be able to satisfy the necessary requirements.

Data is being accumulated, frequent meetings with certain of the institutional bondholders are being held, and your manage-



Accounting Department Electronic Card Sorting Machine

ment hopes that agreement with the large holders can be achieved in the next few months.

The voluntary exchange plan of Boston and Maine 5 Per Cent preferred stock for new income debenture bonds on the basis of \$100 in principal amount of debentures, plus \$5.00 in debenture scrip for each share of stock exchanged, under the plan of exchange approved by the Interstate Commerce Commission in July, 1957, has not been possible of accomplishment in 1958.

DEBT

The corporation's debt outstanding as of December 31, 1958, excluding treasury holdings and bonds deposited with Trustee in lieu of mortgaged property sold, amounted to \$110,945,309. This amount included conditional sale agreements of \$22,663,509 and Equipment Trust Certificates, Series 1, of \$16,042,000. There are outstanding 266,796 shares of 5 per cent preferred stock and 547,608 shares of common stock.

Debt at the end of 1958 consisted of the following:

With Fixed Interest:

| | |
|---|---------------------|
| 4% Bonds due July 1, 1960 | \$47,077,300 |
| 4½% Bonds due April 1, 1961 | 897,000 |
| 5% Bonds due September 1, 1967 | 2,424,000 |
| Collateral Notes due July 16, and October 15, 1959 | 2,910,000 |
| Equipment Trust Certificates, Series 1 | 16,042,000 |
| Conditional Sale Agreements | 22,663,509 |
| Total | <u>\$92,013,809</u> |

With Contingent Interest:

| | |
|----------------------------|------------|
| 4½% Bonds due July 1, 1970 | 18,931,500 |
|----------------------------|------------|

| | |
|------------|----------------------|
| Total Debt | <u>\$110,945,309</u> |
|------------|----------------------|

CHANGES IN DEBT

Changes in debt during the year occurred as follows:

Funded Debt reacquired:

4½% Bonds due July 1, 1970 \$ 437,000

Collateral Notes:

Note issued, due October 15, 1959 1,480,000

Principal payments made on note due
July 16, 1959 120,000

Net increase in Collateral Notes \$ 1,360,000

Net increase in funded debt and notes \$ 923,000

Equipment and road property obligations
discharged during the year 5,218,029

Equipment and road property obligations
added on account of new acquisitions 2,934,597

Net decrease in equipment and road
property obligations \$ 2,283,432

Total decrease in debt \$ 1,360,432

FINANCING

On December 1, 1958 your company filed application under the Transportation Act of 1958 with the Interstate Commerce Commission for guarantee by that body of a loan in an amount not exceeding \$10,500,000. The loan is for the purpose of reimbursing your company's treasury for expenditures made from its own funds for additions, betterments and other capital expenditures between the period January 1, 1957 and September 30, 1958. Under date of March 4, 1959, an amendment to the original application was filed with the Interstate Commerce Commission, reducing the amount of the loan from \$10,500,000 to \$6,000,000. We anticipate early action on this application.

Financing for the centralized traffic control installation between Salem and Newburyport, Massachusetts, between Lowell and Ayer, Massachusetts, and between Concord and Westboro, New Hampshire, is covered by two conditional sale agreements dated January 25, 1957, totalling \$1,266,615, (assigned to Lincoln-Rochester Trust Company of Rochester, New York). Down payments of approximately 20 per cent of the construction costs were made, and there are 60 monthly payments on the unpaid balances, with interest at 4½ per cent.

EMPLOYEES

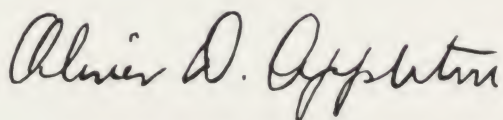
The management wishes to compliment and thank its employees for their cooperation during the difficult year of 1958.

CONCLUSION

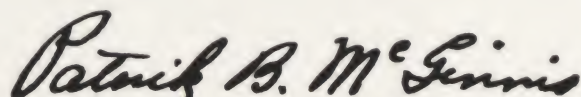
The management is confident of the future of New England. Developments in Boston generally, and specifically in the immediate vicinity of the Railroad's North Station, hold great promise for the value of its Boston properties. The expansion of local companies in growth industries, the awarding of government prime contracts, the tremendous resurgence in construction activity in the Boston area, the increases in electric power generation and the significance of the research and development by the personnel of its neighboring great universities can only redound to the Railroad's benefit.

For its part, the management of the Railroad must make it as efficient as possible in order to secure to the maximum the benefits which the next decade promises.

The progress and accomplishments so far made warrant confidence in the Railroad's ability to thrive in the future. The long-range benefits of the present management's programs of improvement of plant and equipment and reduction of the passenger deficit will first be reflected in their full importance to the Railroad as traffic returns to its 1957 level and then progresses to anticipated higher levels.



Chairman of the Board



President

ASSETS

CURRENT ASSETS

| | |
|--|------------------|
| *Cash | \$ 1,728,702 (A) |
| *U. S. Government obligations, at cost | 5,455,000 (B) |
| *Special deposits | 1,707,715 |
| Receivables | 6,135,158 |
| Materials and supplies | 4,242,129 |
| Other current assets | 1,887,699 |
| TOTAL CURRENT ASSETS | \$ 21,156,403 |

DEFERRED CHARGES, ETC. 2,295,942

TRANSPORTATION AND OTHER PHYSICAL PROPERTY

| | | |
|--|---------------|-------------|
| Road | \$198,868,810 | |
| Equipment | 89,943,122 | |
| Acquisition adjustment | (3,337,339) | |
| Donations and grants | (258,090) | |
| Recorded depreciation and amortization, road | (10,341,672) | |
| Recorded depreciation and amortization, equipment | (17,682,333) | |
| Investment in transportation property | \$257,192,498 | |
| Miscellaneous physical property | 1,122,100 | |
| Recorded depreciation, miscellaneous physical property | (66,027) | |
| TOTAL TRANSPORTATION AND OTHER PHYSICAL PROPERTY .. | | 258,248,571 |

INVESTMENTS AND FUNDS

| | | |
|---|------------------|---------------|
| *Affiliated companies | \$ 3,158,145 (C) | |
| *Other investments | 3,119,282 | |
| *Miscellaneous funds and deposits | 419,849 | |
| TOTAL INVESTMENTS AND FUNDS | | 6,697,276 |
| TOTAL ASSETS | | \$288,398,192 |

(Denotes Red Figures)

(A) Includes Cash in Transit \$660,460

(B) Includes \$4,000,000 Pledged

(C) Includes \$8,502 Pledged

* As to these items in the above balance sheet of Boston and Maine Railroad, we report that as of December 31, 1958 we have received satisfactory certifications or confirmations from the depositories and others or have examined the cash, stock, bonds, and other securities corresponding to all such amounts recorded on the books of account as at that date.

New York, N. Y.
March 6, 1959

OPPENHEIM, APPEL, PAYSON & CO.
Certified Public Accountants

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

| | |
|---|---------------|
| Accounts and wages payable | \$ 8,651,428 |
| Accrued vacation pay | 1,797,656 |
| Accrued taxes | 1,319,431 |
| Interest payable | 2,394,943 |
| Other current liabilities | 3,238,858 |
| TOTAL CURRENT LIABILITIES (Exclusive of long-term debt due within one year) | \$ 17,402,316 |

MISCELLANEOUS LIABILITIES

| | |
|---|--------------|
| Injury, loss and damage, and other reserves | \$ 1,037,358 |
| Deferred liabilities | 8,265,454 |
| TOTAL MISCELLANEOUS LIABILITIES | 9,302,812 |

LONG-TERM DEBT

| | |
|---|-----------------|
| Fixed interest bonds: | |
| 4%, due July 1, 1960 | \$ 47,077,300 |
| 4½%, due April 1, 1961 | 897,000 |
| 5%, due September 1, 1967 | 2,424,000 |
| Contingent interest bonds: | |
| 4½%, due July 1, 1970 | 18,931,500 |
| Equipment obligations, due serially 1959-1969 (\$3,688,092 due within one year) | 22,663,509 |
| Collateral note due July 16, 1959 (secured by \$2,000,000 U. S. Treasury Bonds) | 1,430,000 |
| Collateral note due October 15, 1959 (secured by \$2,000,000 U. S. Treasury Bonds) | 1,480,000 |
| Equipment Trust Certificates Series No. 1, due serially 1959-1971 (\$1,234,000 due within one year) | 16,042,000 |
| TOTAL LONG-TERM DEBT | 110,945,309 (A) |

CAPITAL STOCK AND SURPLUS

| | |
|---|-------------------|
| Preferred stock, 5% \$100 par value, 266,796 shares outstanding ... | \$ 26,679,680 (B) |
| Common stock, no par value, 547,608.51 shares outstanding ... | 54,760,851 |
| Unearned surplus | 27,347,234 |
| Earned surplus, appropriated | 2,717,840 |
| Earned surplus, unappropriated | 39,242,150 (C) |
| TOTAL CAPITAL STOCK AND SURPLUS | 150,747,755 |
| TOTAL LIABILITIES AND CAPITAL | \$288,398,192 |

(A) Excludes Treasury Holdings and Bonds deposited with Trustee in Lieu of Mortgaged

Property Sold:

Treasury Holding:

| | | |
|---|---------------------|------------------------|
| Series RR 4% Bonds, due July 1, 1960 | \$ 2,820,000 | |
| Series A 4½% Bonds, due July 1, 1970 | 331,000 | |
| Series JJ 4½% Bonds, due April 1, 1961 | 5,000 | Deposited with Trustee |
| Series AC 5% Bonds, due September 1, 1967 | 641,000 | Deposited with Trustee |
| | <u>\$ 3,797,000</u> | |

(B) Excludes 5,266 Shares Preferred Stock held in Treasury \$ 526,600

(C) Includes Surplus earned by Lessor Companies before Consolidation

BOSTON AND MAINE RAILROAD

STATEMENT OF INCOME

| | <u>Year 1958</u> | <u>Year 1957</u> | <u>Increase (Decrease)</u> |
|---|-----------------------|----------------------|--------------------------------|
| OPERATING REVENUES | | | |
| Freight | \$59,617,291 | \$66,516,504 | \$ (6,899,213) |
| Passenger, mail and express | 13,042,477 | 14,212,731 | (1,170,254) |
| All other | 4,775,596 | 5,224,692 | (449,096) |
| TOTAL | <u>\$77,435,364</u> | <u>\$85,953,927</u> | <u>\$ (8,518,563)</u> |
| OPERATING EXPENSES | | | |
| Transportation | \$35,568,918 | \$39,600,041 | \$ (4,031,123) |
| Maintenance of way | 10,747,754 | 12,099,036 | (1,351,282) |
| Maintenance of equipment | 10,581,479 | 10,390,598 | 190,881 |
| General and other | 6,626,132 | 6,795,192 | (169,060) |
| TOTAL | <u>\$63,524,283</u> | <u>\$68,884,867</u> | <u>\$ (5,360,584)</u> |
| NET REVENUE FROM OPERATIONS | <u>\$13,911,081</u> | <u>\$17,069,060</u> | <u>\$ (3,157,979)</u> |
| TAXES (EXCEPT FEDERAL INCOME), RENTS, OTHER INCOME AND DEDUCTIONS | | | |
| Property taxes, etc. | \$ 3,309,037 | \$ 2,983,180 | \$ 325,857 |
| Payroll taxes | 2,748,660 | 3,075,216 | (326,556) |
| Equipment rents, net | 5,474,028 | 5,442,531 | 31,497 |
| Joint facility rents, net | 501,549 | 440,651 | 60,898 |
| Other interest, rent, and income, net | (306,215) | (337,826) | 31,611 |
| TOTAL | <u>\$11,727,059</u> | <u>\$11,603,752</u> | <u>\$ 123,307</u> |
| INCOME AVAILABLE FOR FIXED AND CONTINGENT CHARGES | <u>\$ 2,184,022</u> | <u>\$ 5,465,308</u> | <u>\$ (3,281,286)</u> |
| FIXED AND CONTINGENT CHARGES | | | |
| Fixed interest and discount | \$ 4,123,042 | \$ 3,745,412 | 377,630 |
| Contingent interest | 864,688 | 872,525 | (7,837) |
| Rent for leased roads and equipment | 474,930 | 474,930 | — |
| TOTAL | <u>\$ 5,462,660</u> | <u>\$ 5,092,867</u> | <u>\$ 369,793</u> |
| INCOME BEFORE FEDERAL INCOME TAXES | <u>\$ (3,278,638)</u> | <u>\$ 372,441</u> | <u>\$ (3,651,079)</u> |
| FEDERAL INCOME TAXES | (36,431) | (391,721) | 355,290 |
| NET INCOME | <u>\$ (3,242,207)</u> | <u>\$ 764,162</u> | <u>\$ (4,006,369)</u> |

(Denotes Red Figures)

BOSTON AND MAINE RAILROAD STATEMENT OF RETAINED INCOME FOR THE YEAR 1958

| | <u>Appropriated</u> | <u>Unappropriated</u> | <u>Total</u> |
|--|---------------------|-----------------------|---------------------|
| BALANCE AT BEGINNING OF YEAR | \$3,073,125 | \$41,983,717 | \$45,056,842 |
| ADD | | | |
| Profit from Sale of Property | — | 562,307 | 562,307 |
| Profit from Company Bonds Reacquired | — | 266,704 | 266,704 |
| Other credits to Retained Income | — | 219,979 | 219,979 |
| | <u>\$3,073,125</u> | <u>\$43,032,707</u> | <u>\$46,105,832</u> |
| DEDUCT | | | |
| Net deficit for 1958 | — | \$ 3,242,207 | \$ 3,242,207 |
| Loss on sale or retirement of property | — | 609,199 | 609,199 |
| Other debits to Retained Income | 9,920 | 284,516 | 294,436 |
| Appropriations for sinking and other reserve funds | (815,841) | 815,841 | — |
| Appropriations released | 1,161,206 | (1,161,206) | — |
| | <u>\$ 355,285</u> | <u>\$ 3,790,557</u> | <u>\$ 4,145,842</u> |
| BALANCE AT END OF YEAR | <u>\$2,717,840</u> | <u>\$39,242,150</u> | <u>\$41,959,990</u> |

(Denotes Red Figures)



Entrance to the New Salem Tunnel

A detailed financial and statistical supplement to this Report is available. For copies, please address: Maynard W. Bullis, Boston & Maine Railroad, Boston 14, Massachusetts

